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Hydropower Program: Increasing Private Sector Investments in Hydropower Development

What are Nepal's key issues in the energy sector?

Nepal has 83,000 MW of hydropower potential. If this natural resource was harnessed more effectively, the country could meet its domestic demand for electricity as well as export hydropower and potentially transform the economy. Currently, less than 1% of hydropower energy is developed and Nepal depends on bio-fuels, mainly wood, to meet its energy needs. This has serious consequences for Nepal's forests and environment as the unsustainable consumption of fuelwood accelerates deforestation and soil erosion. Furthermore, the lack of electricity is a major constraint to economic development and poverty alleviation. The challenge lies in how to transform Nepal's immense water resources into economic wealth in an environmentally and socially sustainable manner.

- Only 18% of Nepal's population has access to electricity, with coverage plummeting to 7% in rural areas.
- The quality of electricity supply is poor, with high system losses and frequent outages.
- Sector financial needs grossly exceed government resources, making private sector participation and investment all the more crucial.
- Clean energy from non-polluting resources has environmental benefits and, as shown in Bhutan, hydropower export revenue can transform the economy.

What is USAID doing to support the Government of Nepal in hydropower development?

USAID is encouraging socially and environmentally sustainable hydropower development in Nepal, by creating enabling conditions for policy reform, transparency, good governance, and private sector investment. Through a bilateral agreement with His Majesty's Government of Nepal (HMGN) for a five-year (2001-2006) hydropower program, USAID is providing technical assistance and training to: 1) set up a streamlined legal and regulatory framework and simpler licensing procedures; 2) strengthen institutional capacity to address environmental and social impacts; 3) implement a new policy that promotes investment in both domestic and export markets; and 4) establish a Power Development Fund, with World Bank support, as a catalyst for energy investment.

What are the results?

Since 1997, USAID's support for the energy sector has resulted in one of the most successful development assistance programs in Nepal involving the private sector.

- Both national and international private sector investment in hydropower has reached \$380 million.
- Access to electricity increased from 13% to 18% of the population, improving the lives of 1,150,000 Nepalis.

- A sound hydropower policy has been formulated and approved by HMGN, which will promote more investment and open the private sector to exporting hydroelectric power.
- Institution building and capacity strengthening activities have improved enabling conditions and Nepal's ability to attract further investments.
- Stringent rules, regulations and guidelines to ensure that hydropower projects are environmentally and socially sustainable have been developed and are in place.

Who are the key partners?

USAID's key partners include HMGN's Ministry of Water Resources, the Department of Electricity Development and the Nepal Electricity Authority. Donor partners include the World Bank, the Asian Development Bank, the Norwegian Development Agency, the German Development Agency, and the private sector.

For more information:

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